

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

RAND INTERNATIONAL, INC.,

Plaintiff,

No. C 08-03897 JSW

v.

LUCASFILM LTD.,

Defendant.

**ORDER DENYING APPLICATION  
FOR TEMPORARY  
RESTRAINING ORDER**

Now before the Court is the *ex parte* application for a temporary restraining order filed by Plaintiff Rand International, Inc. (“Rand”). Having considered the parties’ arguments, relevant legal authority, and having had the benefit of oral argument, the Court DENIES Rand’s application for a temporary restraining order enjoining LucasFilm, Ltd. (“LucasFilm”) from terminating the License Agreement between the parties.

**BACKGROUND**

In October 2007, Plaintiff Rand, a manufacturer of toy products, entered into a License Agreement with Defendant LucasFilm which granted Rand a non-exclusive license to sell children’s bicycles, scooters, and similar products with the well-known Star Wars and Clone Wars properties affixed to them. (*See* Declaration of Mark Worksman (“Worksman Decl.”), Ex. A.) The License Agreement required that Rand follow good manufacturing practices and comply with applicable safety rules and regulations. The Agreement permitted immediate termination for breach of a material term that was incurable, and further allowed for termination subject to cure, if the breach were curable and cured within twenty days of notice.

On June 18, 2008, LucasFilm sent a letter seeking to terminate the License Agreement after it had received notice from Toys R Us that two of the products manufactured by Rand, a bicycle and a scooter, had failed safety tests by Bureau Veritas, an independent testing agency. (*Id.*, Ex. B.) The letter indicated that a bicycle that had been distributed to Toys R Us failed the lead paint tests performed by Bureau Veritas. The letter also indicated that the scooter failed several dynamic strength tests. The record is replete with correspondence between the parties after that date: from Rand, indicating that the tests were invalid and somehow politically motivated and from LucasFilm indicating that it still perceived the products to be unsafe. Rand contended that the lead test was invalid because it demonstrated that the lead paint levels were uniform throughout parts manufactured and painted at different sites. Rand also maintained that the dynamic strength testing on the scooter was improper because it failed to limit the passenger to the 100-pound weight limit indicated in the scooter's manual.

On August 14, 2008, Rand moved this Court to enter a temporary restraining order enjoining LucasFilm from terminating the License Agreement and mandating that LucasFilm permit the distribution of Rand products under the agreement. On August 19, 2008, LucasFilm opposed the application. On August 20, 2008, Rand replied and stated for the first time that indeed their own independent lead paint testing had revealed potential problems on the fork of the bicycle. The Court heard oral argument on the application on August 22, 2008.

## ANALYSIS

### A. Applicable Legal Standards.

To prevail on a motion for temporary restraining order or to receive preliminary injunctive relief, the moving party bears the burden of demonstrating either (1) a combination of probable success on the merits and the possibility of irreparable injury or (2) the existence of serious questions as to success on the merits and irreparable injury along with a sharp tipping of the balance of hardships in favor of the moving party. *Stahlbarg International Sales Co. v. John D. Brush & Co.*, 240 F.3d 832, 839-840 (9th Cir. 2001). These alternative standards are “not

1 separate tests but the outer reaches of a single continuum.” *International Jensen, Inc. v.*  
2 *Metrosound U.S.A.*, 4 F.3d 819, 822 (9th Cir. 1993).

3 “Because injunctive relief prior to trial is a harsh and extraordinary remedy, it is to be  
4 granted sparingly and only in cases where the issues are clear and well defined and the plaintiff  
5 has established a reasonable certainty of prevailing at trial.” *Watermark, Inc. v. United*  
6 *Stations, Inc.*, 219 U.S.P.Q. 31, 32-33 (C.D. Cal. 1982) (citing *Dymo Industries, Inc. v.*  
7 *Tapeprinter, Inc.*, 326 F.2d 141 (9th Cir. 1964)). Moreover, “on application for preliminary  
8 injunction the court is not bound to decide doubtful and difficult questions of law or disputed  
9 questions of fact.” *Dymo Industries*, 326 F.2d at 143; *see also Mayview Corp. v. Rodstein*, 480  
10 F.2d 714, 719 (9th Cir. 1973) (reversing grant of preliminary injunction based on existence of  
11 disputed factual issues).

12 As an “irreducible minimum,” the moving party must demonstrate “a fair chance of  
13 success on the merits” or “questions ... serious enough to require litigation.” *Sports Form, Inc.*  
14 *v. United Press Intern., Inc.*, 686 F.2d 750, 753 (9th Cir. 1982) (citations omitted). If the  
15 moving party fails to show any chance of success on the merits, a court need not determine  
16 whether there is potential injury or balance the hardships. *Id.*

17 In addition, within the Ninth Circuit, the Court must also consider the public interest  
18 when it assesses the propriety of issuing an injunction. *Sammartano v. First Judicial District*  
19 *Court*, 303 F.3d 959, 973 (9th Cir. 2002).

20 **B. Rand Fails to Demonstrate Probable Chance of Success on the Merits.**

21 Rand fails to demonstrate either that it has a probable chance of success on the merits or  
22 that it will suffer irreparable injury as a result of the denial of its application for a restraining  
23 order. Rand has not shown that it is likely to succeed on the merits of its claim that LucasFilm  
24 improperly terminated the License Agreement. The Agreement required that Rand follow good  
25 manufacturing practices and comply with applicable safety rules and regulations. (Worksman  
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Decl., Ex. A.) It is clear from the record before the Court that at least two of the licensed products manufactured under Rand's supervision failed to meet industry safety standards.<sup>1</sup>

In its notice terminating the Licensing Agreement dated June 18, 2008, LucasFilm indicated that it found Rand in default under the agreement because it had recently received test results from an independent testing agency indicating that the Star Wars Clone 16" bike failed with respect to acceptable lead paint and heavy metal content levels and the Star Wars scooter product failed in the areas of component failure and strength testing. (*Id.*, Ex. B.) LucasFilm indicated its intention to terminate the License Agreement for violation of paragraphs 4.4 and 10.2(e) of the agreement.

Paragraph 4.4 of the Licence Agreement, in relevant part, provides:

Licensee shall ensure that the form, quality and standard of all materials used in the connection with each Licensed Product conform to that of the samples approves by Licenser pursuant to this agreement and complies with all good manufacturing practices relevant to any Licensed Property and/or Licensed Products ... and with all laws and regulations relevant to any Licensed Product(s).

Paragraph 10.2(e) of the License Agreement, in relevant part, provides:

Licensee represents and warrants that: it and other others authorized by it or acting on its behalf will comply at all times hereunder with all applicable laws, rules and/or regulations relating, affecting or pertaining to the use of any Licensed Property ... and to all applicable laws, rules and/or regulations relating, affecting or pertaining to the ... manufacture, ... safety and/or use of each and every unit of a Licensed Product sold hereunder.

Having received test results indicating that Rand's products were not safe due to lead paint content and dynamic strength testing, LucasFilm was within its rights to terminate the contract. The failed test results, at least preliminarily, demonstrate failure to comply with all good manufacturing practices and compliance with applicable laws, rules and regulations pertaining to every licensed product as required under the agreement.

Under paragraph 14.2.1(d) of the Agreement, LucasFilm had an immediate right to terminate the agreement where the "Licensee breaches any other material term or condition of

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<sup>1</sup> The record also indicates that LucasFilm was aware of test failures for others of Rand's products, including helmets, but the bases in the notice of termination of the License Agreement and the majority of the evidence before the Court focuses on the bicycle and the scooter products, and so the Court has similarly so focused its review.

1 this Agreement which breach is of an incurable nature.” There is nothing in the record by  
2 which the Court can make the determination that the safety testing failures were breaches of a  
3 curable nature. Neither party indicates whether the breach of the terms warranting quality  
4 manufacturing or compliance with all applicable laws is, in fact, a curable breach of the  
5 contract.

6 The License Agreement is silent as to the definition of “curable” and “incurable.”  
7 Upon further examination, the Court could find that a breach which threatens public health or  
8 safety, or threatens to do significant harm to the Licensor or its commercial reputation, may, in  
9 fact, render such breach incurable. This case is not in a procedural posture that would enable  
10 this Court to make such a determination regarding the legal definition of these contractual  
11 terms. However, Rand, whose burden it was to persuade the Court that it had a probable  
12 likelihood of success on the merits has not met its burden to demonstrate that the breaches were  
13 indeed curable or, if they were, that they were in fact cured within the requisite time.

14 Even assuming that the failing of the safety tests was a curable breach, the License  
15 Agreement provides that LucasFilm had a right to terminate subject to cure. Paragraph  
16 14.2.2(b) provides that LucasFilm had the right to terminate the agreement if the Licensee  
17 “breaches any other material term or condition of this Agreement which breach is of a curable  
18 nature, provided, that Licensee has failed to cure any such breach within twenty (20) days ...  
19 after written notice of breach from Licensor.” There is nothing in the record indicating that  
20 Rand provided a sufficient cure for breaching the terms warranting quality manufacturing or  
21 compliance with all applicable laws within the twenty-day period required by the parties’  
22 agreement. In his supplemental declaration, Mark Worksman indicates that Rand immediately  
23 contacted the questionable manufacturer and started retesting. (Supplemental Declaration of  
24 Mark Worksman, ¶¶ 11, 12.) Mr. Worksman also states that Rand informed LucasFilm that  
25 they “would quarantine the bikes.” (*Id.*, ¶ 14.) On August 20, 2008, the date of Mr.  
26 Worksman’s supplemental declaration, he also indicates that, for the first time, Rand was  
27 advised by yet another independent testing agency that there could be a lead paint problem with  
28 the fork of the bicycles. (*Id.*, ¶ 15.) At oral argument on this application, Rand’s counsel

1 argued that the subject bicycles had never entered the stream of commerce and that Rand stood  
2 ready to deliver compliant bicycles and replace the lead-painted parts of the specific bicycles  
3 identified as a problem. However, it is clear from the record before this Court that at least one  
4 affected bicycle had already entered the stream of commerce. This bicycle was the one held by  
5 Toys R Us and originally tested by Bureau Veritas. There is no evidence in the record  
6 pertaining to the status of the rest of the bicycles from that original shipment to Toys R Us.  
7 There is no evidence in the record demonstrating that the alleged quarantine occurred within  
8 twenty days of the initial termination of the license. There is no evidence in the record  
9 specifically attesting to the lead content on every bicycle manufactured under Rand's  
10 supervision. Additionally, the fact that an independent testing agency did not have the manual  
11 for the testing of the scooter weight limits indicates that the failure to have the proper labeling  
12 on the product itself may render the scooter unsafe. It appears from the evidence before the  
13 Court that, to the extent the failed safety tests constituted breaches that are curable, Rand has  
14 not cured them to the satisfaction of LucasFilm. To the extent the breaches of the Licensing  
15 Agreement may cause damage to LucasFilm's commercial reputation, again, the Court is  
16 unclear whether such breaches are, in fact, curable.

17 **C. Rand Fails to Demonstrate Irreparable Injury.**

18 The Court finds that Rand also fails to satisfy its burden to demonstrate that it will suffer  
19 irreparable injury should the Court deny its request for injunctive relief. The Court is mindful  
20 that Rand may lose business and may in fact lose substantial good will and sustain damage to its  
21 reputation. However, the Court finds that such damage will result not only from the termination  
22 of the Star Wars license from LucasFilm, but also from the market's awareness that Rand's toys  
23 did not pass certain safety testing protocols. To the extent that the alleged damage to Rand's  
24 reputation and business goodwill is reparable, it is not clear that merely requiring LucasFilm to  
25 continue to do business with them will effect that repair. Further, there is evidence in the record  
26 that LucasFilm stands to suffer significant damage to its own goodwill and business reputation  
27 should the Court require them to continue to do business with Rand. The Court finds that the  
28 balance of hardships does not favor Rand, the moving party, and further that the remedy they

1 seek would not necessarily redress the alleged harm they may face regardless of the Court's  
2 intervention.

3 **D. Public Interest Factor.**

4 To the extent that the Court must also consider the public interest when it assesses the  
5 propriety of issuing an injunction, the Court finds that the public interest is not served in  
6 allowing a company to produce children's toys without demonstrating good manufacturing  
7 practices with regard to safety. Although the Court is cognizant that Rand maintains it has and  
8 will continue to produce safe toys, the Court cannot find, as a matter of law, that requiring  
9 LucasFilm to continue to do business with a toy manufacturer whose products have admittedly  
10 failed several safety tests is in the public interest.

11 **CONCLUSION**

12 For the foregoing reasons, the Court HEREBY DENIES Rand's application for a  
13 temporary restraining order.

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15 **IT IS SO ORDERED.**

16 Dated: August 27, 2008

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19 JEFFREY S. WHITE  
20 UNITED STATES DISTRICT JUDGE  
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